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FISCAL IMPACT REPORT

ORIGINAL DATE 1/25/06

SPONSOR Carraro LAST UPDATED _____ HB _____

SHORT TITLE Armed Forces Salary Income Tax Exemption SB 209

ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
(5,500.0)	(11,000.0)	(11,000.0)	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

Duplicates HB 369

Relates to SB210, SB115, HB44 (Military Pension Exemption)

SOURCES OF INFORMATION

LFC Files

Taxation and Revenue Department (TRD)

Responses Received From

Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 209 exempts salaries paid by the United States to persons actively serving in the armed forces from the state income tax. The exemption is effective January 1, 2006, for the 2006 tax year.

FISCAL IMPLICATIONS

TRD:

The \$11 million fiscal impacts estimate assumes: 1) the average salary of military service people is approximately \$45,000, 2) approximately 70% or \$31,500 would be taxable after allowance for present law exemptions and deductions, 3) approximately 7,000 New Mexico taxpayers or roughly .5% of the 1.4 million total U.S. active service members receive the exemption, and 4)

their average tax rate is 5%. The tax reduction to service members would be approximately \$1,575 annually.

Because the exemption takes effect in tax year 2006, 50 percent of the tax year 2006 impact would accrue during FY 2006.

ADMINISTRATIVE IMPLICATIONS

Provisions of the proposed measure would impose relatively minor administrative impacts on the Taxation and Revenue Department. Provisions of the proposal could be administered with resources currently available to the Department.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB 209 is identical to HB 369. SB 209 relates to HB 44, SB 115, and SB 210, bills which exempt military pensions from the state income tax.

TECHNICAL ISSUES

According to the Department of Defense, “Active Duty” refers to “Full-time duty in the active service of a Uniformed Service, including fulltime training duty, annual training duty, and attendance while in the active service at a school designated as a Military Service school by law or by the Secretary concerned.”

TRD notes that, as written, the measure could be interpreted to include an exemption for federal personal income tax obligations. It should be amended to clarify that it does not.

OTHER SUBSTANTIVE ISSUES

By reducing state tax obligations, the proposed measure would tend to increase federal tax liability because state tax obligations are deductible against federal liability. Hence the net taxpayer benefit would be less than the \$1,575 per claimant mentioned above. The \$1,575 in state tax savings would, for example, be reduced to \$1,260 ($\$1,575 \times .8$) for a taxpayer in the 20% federal tax bracket.

NF/yr